

BELMOND-KLEMMÉ
COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

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BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2004 Election)

Marilyn Janssen	President	2005
Kevin Brunes	Vice President	2005
Jim Kiefer		2004
Bruce Meyer		2005
Roger Johnson		2004
Dennis Lowenberg		2006
Jim Swenson		2006

(After September, 2004 Election)

Marilyn Janssen	President	2005
Kevin Brunes	Vice President	2005
Steve Tenold		2007
Bruce Meyer		2005
Jodi Pentico		2007
Dennis Lowenberg		2006
Jim Swenson		2006

SCHOOL OFFICIALS

Bill Maske	Superintendent
Dawn Sander	District Secretary/ Treasurer

Independent Auditor's Report

To the Board of Education of the
Belmond-Klemme Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Belmond-Klemme Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Belmond-Klemme Community School District as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2005 on our consideration of Belmond-Klemme Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 29 through 31 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Belmond-Klemme Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

November 2, 2005

BELMOND-KLEMMER COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Belmond-Klemme Community School District's Comprehensive Annual Financial Report presents its "discussion and analysis" of the District's financial performance during the fiscal year ending June 30, 2005. Please read it in conjunction with the District's financial statements.

2005 FINANCIAL HIGHLIGHTS

- The District enjoys a 9% solvency ratio. This is down 6% from the prior year. This will help in absorbing state aid cuts and inadequate allowable growth.
- The District's General Fund balance decreased by over \$340,000. The District had revenues of \$6,160,120 and \$6,502,275 was spent during the year.
- Revenues increased over the prior year. This was due primarily to increased federal grant activity. Tuition revenues grew by over \$50,000. State revenues increased, but were offset by property tax decrease.
- The District has actively pursued grants from various sources in order to enhance the District's course offerings.
- The District began collecting local option sales tax money from Hancock County in September, 2003. Wright County began collecting it July 1, 2004. No specific uses have been designated, but will most likely be used to address infrastructure needs in the District. There is currently over \$350,000 in the Capital Projects Fund.
- The District's General Fund expenditures increased over \$370,000 in Fiscal 2005. This was primarily due to increases in payroll and benefits. A large part of this increase was in the Instruction area as the District continues to focus its monies on direct classroom spending. Maintenance and transportation costs also increased dramatically during the year.
- Enrollment dropped 9.4 students from fiscal 2004 to fiscal 2005. However, 12.0 was a reduction in open enrolled out students. The number of students served in District facilities actually increased 4.4 students.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the financial statements, and required supplemental information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Belmond-Klemme Community School District

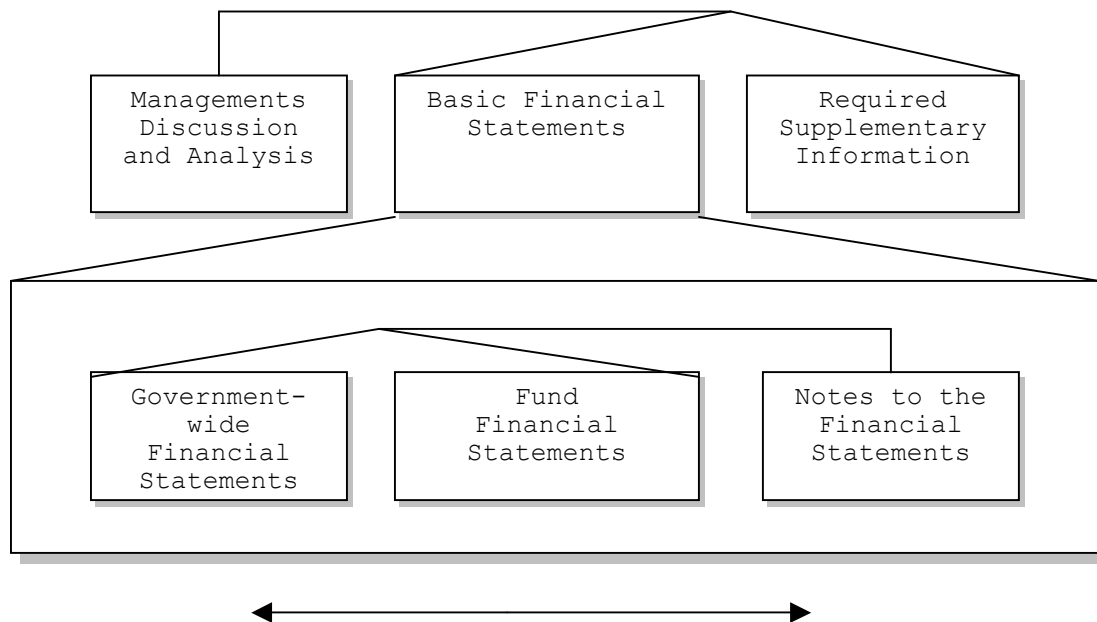


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

COMBINED BALANCE SHEET

The combined balance sheet shows the total assets, liabilities, and fund equity for all of the funds for the entire district for the 2004 fiscal year. The combined balance sheet shows three major fund types as well as the account groups: general fixed assets and the general long-term debt.

The government funds include: the general fund, special revenue, debt service, and capital projects. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, administration, and capital projects. Property taxes and state aid finance most of these activities.

The District's only enterprise fund is the school nutrition fund.

The fiduciary funds include trusts and agencies. The District is the trustee or fiduciary for assets that belong to others, such as scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from other types of funds because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Current assets	5,660	5,667	39	28	5,699	5,695	0.07%
Capital assets	401	734	20	15	421	749	-43.79%
Total assets	6,061	6,401	59	43	6,120	6,444	-5.03%
Current liabilities	4,626	4,531	5	4	4,631	4,535	2.12%
Non-current liabilities	-	-	-	-	-	-	0.00%
Total liabilities	4,626	4,531	5	4	4,631	4,535	2.12%
Net Assets							
Invested in capital assets, net of related debt	401	734	20	15	421	749	-43.79%
Restricted	375	175	-	-	375	175	114.29%
Unrestricted	659	961	34	24	693	985	-29.64%
Total net assets	1,435	1,870	54	39	1,489	1,909	-22.00%

The combined net assets of the District decreased by 22%. This was due primarily to two factors - decreased balance in General Fund and depreciation of fixed assets.

Changes in net assets - Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	238	148	386
Operating grants, contributions and restricted interest	1,168	102	1,270
General revenues:			
Property tax	2,561	-	2,561
Income surtax	145	-	145
Local option sales tax	290	-	290
Unrestricted state grants	2,624	-	2,624
Unrestricted investment earnings	17	-	17
Other	1	-	1
Total revenues	<u>7,044</u>	<u>250</u>	<u>7,294</u>
Program expenses:			
Governmental activities:			
Instruction	4,411	-	4,411
Support Services	2,381	-	2,381
Non-instructional programs	4	234	238
Other expenses	683	-	683
Total expenses	<u>7,479</u>	<u>234</u>	<u>7,713</u>
Change in net assets	<u>(435)</u>	<u>16</u>	<u>(419)</u>

Property tax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,044,703 and expenses were \$7,479,235. The District reduced discretionary spending in an effort to keep expenditures as close as possible to revenues.

Inadequate allowable growth prevents obtaining additional revenues from normal funding sources. Normal payroll increases exceed new money generated by the state formula each year.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	4,411	3,303
Support Services	2,381	2,336
Non-instructional programs	4	4
Other expenditures	<u>683</u>	<u>430</u>
Totals	<u>7,479</u>	<u>6,073</u>

- The cost financed by users of the District's programs was \$237,766.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$841,106.
- The net cost of governmental activities was financed with \$2,560,853 in property tax, \$2,623,957 in state foundation aid, and \$17,083 in interest income.

Proprietary-Type Activities

Revenues for the District's School Nutrition Fund were \$249,194 and expenses were \$233,741. The revenues include: charges for services, contributions, and federal and state reimbursements.

The Trust Funds are funds given and designated by outside groups and people basically to be given as scholarships. These funds are not to be used to support the operations of the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Belmond-Klemme Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$1,435,248, which is 23% less than last year's ending fund balance of \$1,869,780.

- The District has been trying to control its General Fund balance by holding the line on payroll and discretionary spending and obtaining outside grants.
- Allowable growth of 4% is inadequate to maintain educational programs at their current level without dipping into existing reserves.
- Depreciation expenses (non-cash expense) is over \$400,000. This makes the decrease in fund balance much more pronounced than the decrease in actual cash on hand.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget after the required public notice and hearing. The budget for the current fiscal year is usually amended each April for revenues and expenditures that could not be anticipated the prior April. The budget amending process follows similar statutory procedures.

It is the District's practice, as is in most Iowa school districts, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year. Expenditures did not exceed the amounts budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2005, the District has invested more than \$5,600,000 in a broad range of capital assets including school buildings, athletic facilities, kitchens, computers and audio-visual equipment, administration building, transportation/storage facility, maintenance equipment, school buses, and other vehicles, library holdings and textbooks. Total depreciation expense for the year exceeded \$400,000.

Long-term Debt

The District has no long-term debt as of June 30, 2005.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- Decreasing enrollment will have a negative offset in future years.
- Unfunded mandates such as "No Child Left Behind," and "GASB34" are making it very difficult for schools to keep adequate staffing and provide the necessary instructional materials.
- Inadequate funding by the Legislature will force the District to dip further into its reserves.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David Sextro, Superintendent, Belmond-Klemme Community Schools, 411 10th Ave NE, Belmond, Iowa 50421.

Basic Financial Statements

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	1,400,020	31,954	1,431,974
ISCAP investments	1,441,579	-	1,441,579
Receivables:			
Property tax:			
Current year	42,485	-	42,485
Succeeding year	2,639,077	-	2,639,077
Income surtax - succeeding year	68,281	-	68,281
ISCAP accrued interest	7,102	-	7,102
Due from other governments	61,217	-	61,217
Other receivables	209	-	209
Inventories	-	7,386	7,386
Capital assets, net of accumulated depreciation (note 3)	401,303	20,044	421,347
Total assets	<u>6,061,273</u>	<u>59,384</u>	<u>6,120,657</u>
Liabilities			
Accounts payable	12,106	-	12,106
Accrued salary and benefits	515,728	4,758	520,486
ISCAP warrants payable	1,436,000	-	1,436,000
ISCAP accrued interest payable	23,114	-	23,114
Deferred revenue:			
Succeeding year property tax	2,639,077	-	2,639,077
Total liabilities	<u>4,626,025</u>	<u>4,758</u>	<u>4,630,783</u>
Net assets			
Invested in capital assets, net of related debt	401,303	20,044	421,347
Restricted for:			
Capital Projects	352,757	-	352,757
Management Fund	21,765	-	21,765
Unrestricted	659,423	34,582	1,068,527
Total net assets	<u>1,435,248</u>	<u>54,626</u>	<u>1,489,874</u>

See notes to financial statements.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction:						
Regular instruction	2,951,751	235,916	302,166	(2,413,669)	-	(2,413,669)
Special instruction	935,130	1,850	363,492	(569,788)	-	(569,788)
Other instruction	524,492	-	204,552	(319,940)	-	(319,940)
	<u>4,411,373</u>	<u>237,766</u>	<u>870,210</u>	<u>(3,303,397)</u>	<u>-</u>	<u>(3,303,397)</u>
Support services:						
Student services	184,943	-	3,979	(180,964)	-	(180,964)
Instructional staff services	481,458	-	-	(481,458)	-	(481,458)
Administration services	632,174	-	-	(632,174)	-	(632,174)
Operation and maintenance of plant services	810,918	-	40,439	(770,479)	-	(770,479)
Transportation services	271,280	-	-	(271,280)	-	(271,280)
	<u>2,380,773</u>	<u>-</u>	<u>44,418</u>	<u>(2,336,355)</u>	<u>-</u>	<u>(2,336,355)</u>
Non-instructional programs:						
Food service operations	3,697	-	-	(3,697)	-	(3,697)
Other expenditures:						
AEA flowthrough	253,391	-	253,391	-	-	-
Depreciation (unallocated)*	430,001	-	-	(430,001)	-	(430,001)
	<u>683,392</u>	<u>-</u>	<u>253,391</u>	<u>(430,001)</u>	<u>-</u>	<u>(430,001)</u>
Total governmental activities	7,479,235	237,766	1,168,019	(6,073,450)	-	(6,073,450)

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$	\$	\$	\$
Business-Type activities:						
Non-instructional programs:						
Nutrition services	233,741	147,580	101,614	-	15,453	15,453
Total	<u>7,712,976</u>	<u>385,346</u>	<u>1,269,633</u>	(6,073,450)	15,453	(6,057,997)
General revenues:						
Property tax levied for:						
General purposes				2,278,898	-	2,278,898
Management fund				99,946	-	99,946
Capital outlay				182,009	-	182,009
Income surtax				145,641	-	145,641
Local option sales tax				290,622	-	290,622
Unrestricted state grants				2,623,957	-	2,623,957
Unrestricted investment earnings				17,083	-	17,083
Other				762	-	762
Total general revenue				<u>5,638,918</u>	-	<u>5,638,918</u>
Change in net assets				(434,532)	15,453	(419,079)
Net assets beginning of year, as restated (note 8)				<u>1,869,780</u>	<u>39,173</u>	<u>1,908,953</u>
Net assets end of year				<u>1,435,248</u>	<u>54,626</u>	<u>1,489,874</u>

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

	General	Physical Plant and Equipment Levy	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	1,022,673	-	291,540	85,807	1,400,020
ISCAP investments	1,441,579	-	-	-	1,441,579
Receivables:					
Property tax:					
Current year	37,967	2,911	-	1,607	42,485
Succeeding year	2,245,344	180,733	-	213,000	2,639,077
Income surtax - succeeding year	68,281	-	-	-	68,281
ISCAP accrued interest	7,102	-	-	-	7,102
Due from other governments	-	-	61,217	-	61,217
Interfund receivable	16,786	-	-	-	16,786
Other receivables	110	-	-	99	209
Total assets	<u>4,839,842</u>	<u>183,644</u>	<u>352,757</u>	<u>300,513</u>	<u>5,676,756</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	12,106	-	-	-	12,106
Accrued salary and benefits	515,728	-	-	-	515,728
ISCAP warrants payable	1,436,000	-	-	-	1,436,000
ISCAP accrued interest payable	23,114	-	-	-	23,114
Interfund payable	-	16,786	-	-	16,786
Deferred revenue:					
Succeeding year property tax	2,245,344	180,733	-	213,000	2,639,077
Succeeding year income surtax	68,281	-	-	-	68,281
Total liabilities	<u>4,300,573</u>	<u>197,519</u>	<u>-</u>	<u>213,000</u>	<u>4,711,092</u>
Fund balances:					
Reserved for capital projects	-	-	352,757	-	352,757
Unreserved	539,269	(13,875)	-	87,513	612,907
Total fund balance	<u>539,269</u>	<u>(13,875)</u>	<u>352,757</u>	<u>87,513</u>	<u>965,664</u>
Total liabilities and fund balances	<u>4,839,842</u>	<u>183,644</u>	<u>352,757</u>	<u>300,513</u>	<u>5,676,756</u>

See notes to financial statements.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 965,664
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	68,281
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	<u>401,303</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,435,248</u></u>

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Physical Plant and Equipment Levy	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,438,151	182,009	290,622	99,946	3,010,728
Tuition	228,547	-	-	-	228,547
Other	28,520	39,597	-	203,426	271,543
State sources	3,194,236	143	-	78	3,194,457
Federal sources	270,606	-	-	-	270,606
Total revenues	6,160,060	221,749	290,622	303,450	6,975,881
Expenditures:					
Instruction:					
Regular instruction	2,921,154	9,100	-	21,497	2,951,751
Special instruction	935,130	-	-	-	935,130
Other instruction	307,738	-	-	216,754	524,492
	4,164,022	9,100	-	238,251	4,411,373
Support services:					
Student services	184,943	-	-	-	184,943
Instructional staff services	481,458	-	-	-	481,458
Administration services	631,933	241	-	-	632,174
Operation and maintenance of plant services	554,185	259,217	-	59,287	872,689
Transportation services	232,343	62,163	-	12,535	307,041
	2,084,862	321,621	-	71,822	2,478,305
Non-instructional programs:					
Food service operations	-	-	-	3,697	3,697
Other expenditures:					
AEA flowthrough	253,391	-	-	-	253,391
	253,391	-	-	-	253,391
Total expenditures	6,502,275	330,721	-	313,770	7,146,766
Excess (deficiency) of revenues over (under) expenditures	(342,215)	(108,972)	290,622	(10,320)	(170,885)
Other financing sources (uses):					
Sale of property and materials	60	481	-	-	541
Total other financial sources (uses)	60	481	-	-	541
Net change in fund balance	(342,155)	(108,491)	290,622	(10,320)	(170,344)
Fund balances beginning of year	881,424	94,616	62,135	97,833	1,136,008
Fund balances end of year	539,269	(13,875)	352,757	87,513	965,664

See notes to financial statements.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ (170,344)

**Amounts reported for governmental activities in the
statement of activities are different because:**

Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 68,281

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 112,289	
Depreciation expense	<u>(444,758)</u>	<u>(332,469)</u>

Change in net assets of governmental activities (Exhibit B) \$ (434,532)

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>147,580</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	94,541
Benefits	16,903
Services	7,968
Supplies	109,642
Property	236
Depreciation	<u>4,451</u>
Total operating expenses	<u>233,741</u>
Operating (loss)	<u>(86,161)</u>
Non-operating revenues:	
Interest on investments	338
State sources	2,081
Federal sources	<u>99,195</u>
Total non-operating revenues	<u>101,614</u>
Change in net assets	15,453
Net assets beginning of year	<u>39,173</u>
Net assets end of year	<u><u>54,626</u></u>

See notes to financial statements.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2005

	Enterprise School Nutrition \$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	147,580
Cash payments to employees for services	(110,338)
Cash payments to suppliers for goods or services	(96,463)
Net cash (used in) operating activities	(59,221)
Cash flows from non-capital financing activities:	
State grants received	2,081
Federal grants received	77,315
Net cash provided by non-capital financing activities	79,396
Cash flows from capital financing activities:	
Purchase of fixed assets	(9,636)
Cash flows from investing activities:	
Interest on investments	338
Net increase in cash and cash equivalents	10,877
Cash and cash equivalents beginning of year	21,077
Cash and cash equivalents end of year	31,954
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(86,161)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:	
Depreciation	4,451
Commodities used	21,880
(Increase) in inventory	(497)
Increase in accrued salary and benefits	1,106
	(59,221)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	31,954
Non-cash investing, capital and financing activities:	

During the year ended June 30, 2005, the District received federal commodities valued at \$21,880.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trusts
	<u>\$</u>
Assets	
Cash and pooled investments	<u>1,170,649</u>
Total assets	<u>1,170,649</u>
Net Assets	
Reserved for scholarships	<u>1,170,649</u>
Total net assets	<u>1,170,649</u>

See notes to financial statements.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2005

	Private Purpose <u>Trusts</u> \$
Additions:	
Local sources:	
Other	81,109
Deductions:	
Support services:	
Other	<u>44,600</u>
Change in net assets	36,509
Net assets beginning of year	<u>1,134,140</u>
Net assets end of year	<u><u>1,170,649</u></u>

See notes to financial statements.

BELMOND-KLEMMER COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

Belmond-Klemme Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the Cities of Belmond and Klemme, Iowa, and agricultural territory in Wright, Hancock and Franklin Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board.

A. Reporting Entity

For financial reporting purposes, Belmond-Klemme Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Belmond-Klemme Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wright and Hancock County Assessor's Conference Boards.

B. Basis of Presentation

Government-wide financial statements - The statements of net assets and the statement of activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Property, furniture and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Long-term obligations - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2005 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$70,530</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk - The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk - The investments in the Iowa School Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>22,196</u>	<u>-</u>	<u>-</u>	<u>22,196</u>
Capital assets being depreciated:				
Land Improvements	<u>14,191</u>	<u>-</u>	<u>-</u>	<u>14,191</u>
Buildings	<u>2,851,170</u>	<u>-</u>	<u>-</u>	<u>2,851,170</u>
Furniture and Equipment	<u>2,573,171</u>	<u>112,289</u>	<u>-</u>	<u>2,685,460</u>
Total capital assets being depreciated	<u>5,438,532</u>	<u>112,289</u>	<u>-</u>	<u>5,550,821</u>
Less accumulated depreciation for:				
Land Improvements	<u>568</u>	<u>568</u>	<u>-</u>	<u>1,136</u>
Buildings	<u>2,566,053</u>	<u>57,023</u>	<u>-</u>	<u>2,623,076</u>
Furniture and Equipment	<u>2,160,335</u>	<u>387,167</u>	<u>-</u>	<u>2,547,502</u>
Total accumulated depreciation	<u>4,726,956</u>	<u>444,758</u>	<u>-</u>	<u>5,171,714</u>
Total capital assets being depreciated, net	<u>711,576</u>	<u>(332,469)</u>	<u>-</u>	<u>379,107</u>
Governmental activities, capital assets, net	<u>733,772</u>	<u>(332,469)</u>	<u>-</u>	<u>401,303</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities				
Furniture and Equipment	43,769	9,636	-	53,405
Less accumulated depreciation	28,910	4,451	-	33,361
Business type activities capital assets, net	<u>14,859</u>	<u>5,185</u>	<u>-</u>	<u>20,044</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Student transportation	14,757
Unallocated	<u>430,001</u>
	<u>444,758</u>

Business type activities:

Food service operations	<u>4,451</u>
-------------------------	--------------

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co., NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005 is as follows:

Series	Dates Issued	Final Warrant Maturity	Investment	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ -	-	-	-
2004-05B	1/28/05	1/27/06	509,468	6,902	508,000	22,936
2004-06A	6/30/05	6/30/06	<u>932,111</u>	<u>200</u>	<u>928,000</u>	<u>178</u>
Total			<u>\$1,441,579</u>	<u>7,102</u>	<u>1,436,000</u>	<u>23,114</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund, for the year ended June 30, 2005.

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.00%	2.463%
2004-05B	3.50%	2.280%
2005-06A	3.50%	2.903%

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$214,137, \$207,201, and \$202,528 respectively, equal to the required contributions for each year.

(6) Risk Management

Belmond-Klemme Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$253,391 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Financial Condition

The District's Physical Plant and Equipment Levy had a deficit fund balance of \$13,875 at June 30, 2005.

Required Supplementary Information

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Original</u>	<u>Final</u>	
	\$	\$	\$	\$	\$	\$
Revenues						
Local sources	3,477,498	147,918	3,625,416	3,717,399	3,717,399	(91,983)
State sources	3,194,457	2,081	3,196,538	3,191,082	3,191,082	5,456
Federal sources	270,606	77,315	347,921	188,587	188,587	159,334
Total revenues	<u>6,942,561</u>	<u>227,314</u>	<u>7,169,875</u>	<u>7,097,068</u>	<u>7,097,068</u>	<u>72,807</u>
Expenditures						
Instruction	4,386,814	-	4,386,814	4,415,000	4,415,000	28,186
Support services	2,353,305	-	2,353,305	2,374,000	2,374,000	20,695
Non-instructional programs	-	206,801	206,801	288,000	288,000	81,199
Other expenditures	378,391	-	378,391	507,391	507,391	129,000
Total expenditures	<u>7,118,510</u>	<u>206,801</u>	<u>7,325,311</u>	<u>7,584,391</u>	<u>7,584,391</u>	<u>259,080</u>
Excess of revenues over expenditures	(175,949)	20,513	(155,436)	(487,323)	(487,323)	331,887
Other financing sources (uses)	<u>541</u>	<u>-</u>	<u>541</u>	<u>-</u>	<u>-</u>	<u>541</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(175,408)	20,513	(154,895)	(487,323)	(487,323)	332,428
Balance beginning of year	<u>1,575,428</u>	<u>21,077</u>	<u>1,596,505</u>	<u>2,049,097</u>	<u>2,049,097</u>	<u>(452,592)</u>
Balance end of year	<u>1,400,020</u>	<u>41,590</u>	<u>1,441,610</u>	<u>1,561,774</u>	<u>1,561,774</u>	<u>(120,164)</u>

See accompanying independent auditor's report.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 6,942,561	33,320	6,975,881
Expenditures	<u>7,118,510</u>	<u>28,256</u>	<u>7,146,766</u>
Net	(175,949)	5,064	(170,885)
Other financing sources (uses)	541	-	541
Beginning fund balances	<u>1,575,428</u>	<u>(439,420)</u>	<u>1,136,008</u>
Ending fund balances	<u>\$ 1,400,020</u>	<u>(434,356)</u>	<u>965,664</u>

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 227,314	21,880	249,194
Expenditures	<u>216,437</u>	<u>17,304</u>	<u>233,741</u>
Net	10,877	4,576	15,453
Beginning fund balances	<u>21,077</u>	<u>18,096</u>	<u>39,173</u>
Ending fund balances	<u>\$ 31,954</u>	<u>22,672</u>	<u>54,626</u>

See accompanying independent auditor's report.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Non-major Special Revenue Funds

June 30, 2005

	Management	Student Activity	Total
	\$	\$	\$
Assets			
Cash and pooled investments	20,158	65,649	85,807
Property tax receivable:			
Current year	1,607	-	1,607
Succeeding year	213,000	-	213,000
Other receivables	-	99	99
Total assets	<u>234,765</u>	<u>65,748</u>	<u>300,513</u>
Liabilities and Fund Equity			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	213,000	-	213,000
	<u>213,000</u>	<u>-</u>	<u>213,000</u>
Fund equity:			
Unreserved, undesignated fund balance	21,765	65,748	87,513
Total liabilities and fund equity	<u>234,765</u>	<u>65,748</u>	<u>300,513</u>

See accompanying independent auditor's report.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICTCombining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Non-major Special Revenue Funds

Year ended June 30, 2005

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	99,946	-	99,946
Other	621	202,805	203,426
State sources	78	-	78
Total revenues	<u>100,645</u>	<u>202,805</u>	<u>303,450</u>
Expenditures:			
Instruction:			
Regular instruction	21,497	-	21,497
Co-curricular instruction	-	216,754	216,754
Support services:			
Plant operation and maintenance	59,287	-	59,287
Student transportation	12,535	-	12,535
Non-instructional programs:			
Food service operations	<u>3,697</u>	<u>-</u>	<u>3,697</u>
Total expenditures	<u>97,016</u>	<u>216,754</u>	<u>313,770</u>
Excess (deficiency) of revenues over (under) expenditures	3,629	(13,949)	(10,320)
Fund balances beginning of year	<u>18,136</u>	<u>79,697</u>	<u>97,833</u>
Balance end of year	<u><u>21,765</u></u>	<u><u>65,748</u></u>	<u><u>87,513</u></u>

See accompanying independent auditor's report.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Interest on Investments	290	995	1,283	2
Pictures	924	758	1,500	182
Student Activities	(265)	788	523	-
Gifts & Donations	823	262	250	835
DARE/FREE FORCE	3,117	-	1,999	1,118
Special Needs Fund	17	-	-	17
Nursing Services	420	100	41	479
Auditorium Renovation	9,114	-	9,114	-
Outdoor Classroom	1,601	-	1,601	-
Diversity Team	-	95	22	73
Elementary Activities	2,130	676	456	2,350
Elementary Band	1,290	538	354	1,474
Elementary Chorus	1,689	531	744	1,476
5th Grade Activities	2,012	1,219	1,242	1,989
Boxtops for Education	7,265	2,681	-	9,946
Parent University	216	-	-	216
Special Ed Track Fund	232	125	-	357
Market Madness	303	68	371	-
JH Student Council	774	476	594	656
JH Vocal	1,793	531	25	2,299
JH Band	2,122	531	307	2,346
JH Cheerleaders	(126)	126	-	-
JH Annual	(2,034)	3,743	1,709	-
JH Homepage Project	649	-	649	-
Student Council	1,110	6,884	5,160	2,834
Pop Machine	1,962	4,346	6,308	-
Pencil Machine	190	29	134	85
Drama	3,800	1,764	1,769	3,795
Vocal Activity	1,625	6,124	5,155	2,594
Band Activity	1,090	2,253	1,788	1,555
Athletics	(15,425)	48,432	40,708	(7,701)
Cheerleaders	2,480	3,513	4,525	1,468
Spanish Club	83	-	-	83
Shop	910	76	986	-
Industrial Arts Project	638	660	602	696
Yearbook	6,687	10,089	14,667	2,109
FFA	(485)	9,124	7,837	802
NHS	309	534	743	100
Peer Helper	124	143	165	102
After Prom Party CD	3,500	19	19	3,500
After Prom Party	2,066	21,647	18,638	5,075
At Risk Activities	6,148	-	2,999	3,149

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Class of 2002	174	-	174	-
Class of 2003	220	-	220	-
Class of 2004	(103)	103	-	-
Class of 2005	(151)	265	114	-
Class of 2006	(36)	136	-	100
Class of 2007	(20)	145	25	100
Class of 2008	-	168	68	100
Class of 2009	-	100	-	100
Band & Vocal Trip	656	-	-	656
Jr Class Prom Account	59	2,848	2,102	805
Student Center Displays	409	-	-	409
B-K Booster Klub	5,563	21,806	27,369	-
State Tournament	(3,352)	16,079	12,727	-
Uniform Account	(738)	7,499	5,443	1,318
Uniform Account CD	23,000	16,000	23,000	16,000
Magazine Fund Raiser	23	7,728	7,751	-
BD Incentive Program	2,774	-	2,774	-
Accrual entries	51	48	-	99
Totals	<u>79,697</u>	<u>202,805</u>	<u>216,754</u>	<u>65,748</u>

See accompanying independent auditor's report.

BELMOND-KLEMMER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Private Purpose Trusts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Courson Memorial	2,202	31	-	2,233
Luin Cox Memorial	5,125	1,456	1,500	5,081
George Heginger Fund	40,916	1,734	1,750	40,900
Dr. Samuel Leinbach Fund	10,196	375	-	10,571
Archie Stockseth Fund	73,653	2,784	1,550	74,887
Belmond-Klemme Scholarship Foundation	930,560	54,464	37,600	947,424
Dana & Avis Howell Fund	54,549	19,778	2,200	72,127
King Solomon Scholarship	10,545	334	-	10,879
Mark J. Schmidt Scholarship	6,394	153	-	6,547
Totals	<u>1,134,140</u>	<u>81,109</u>	<u>44,600</u>	<u>1,170,649</u>

See accompanying independent auditor's report.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2005	2004	2003	2002
	\$	\$	\$	\$
Local sources:				
General	2,438,151	2,552,471	2,455,822	2,291,858
Special revenue	281,955	291,508	278,756	276,253
Capital projects	290,622	62,135	-	-
	<u>3,010,728</u>	<u>2,906,114</u>	<u>2,734,578</u>	<u>2,568,111</u>
State sources:				
General	3,194,236	2,948,727	3,053,691	3,408,513
Special revenue	221	391	635	517
School nutrition	2,081	3,448	3,817	4,121
	<u>3,196,538</u>	<u>2,952,566</u>	<u>3,058,143</u>	<u>3,413,151</u>
Federal sources:				
General	270,606	176,927	114,531	119,940
Special revenue	-	50,000	-	-
School nutrition	99,195	86,287	88,894	83,421
	<u>369,801</u>	<u>313,214</u>	<u>203,425</u>	<u>203,361</u>
Total	<u>6,577,067</u>	<u>6,171,894</u>	<u>5,996,146</u>	<u>6,184,623</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Belmond-Klemme Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Belmond-Klemme Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 2, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Belmond-Klemme Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 05-I-A and 05-II-B are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Belmont-Klemme Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed immaterial instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Belmont-Klemme Community School District and other parties to whom Belmont-Klemme Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Belmont-Klemme Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

November 2, 2005

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-I-A Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control systems.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

05-I-B Bank Reconciliation Preparation - We noted that the bank accounts of the District were not always reconciled on a timely basis.

Recommendation - We recommend that all bank accounts be reconciled monthly to ensure accurate financial statements and timely correction of clerical errors.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

05-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget - Disbursements for the year ended June 30, 2005, did not exceed the amounts budgeted.

05-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

05-II-E Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

05-II-F Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:
(continued) :

05-II-G Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Sander Husband of District Secretary	Officiating/Coaching	\$2,834

The transactions with Mr. Sander appear to represent a conflict of interest since the transactions did exceed the \$2,500 of purchases allowed by the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will consult our attorney.

Conclusion - Response accepted.

05-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

05-II-I Certified Annual Report - We noted that the District's Certified Annual Report was not filed with the Department of Education by the September 15, 2005 due date.

Recommendation - We recommend that the CAR be filed by the September 15 deadline in future years.

Response - We will comply with the deadline.

Conclusion - Response accepted.

05-II-J Certified Enrollment - The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2004 was overstated. The District's certified enrollment count included 1 student on both Line 1 (Resident) and Line 3 (tuitioned out). This resulted in overstating the total actual enrollment at line 7 by 1 student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

05-II-K Financial Condition - We noted that the District's Physical Plant and Equipment Levy had a deficit fund balance at June 30, 2005.

Recommendation - We recommend that the District investigate alternatives to return this fund to a positive financial position.

Response - The District has plans in place to ensure that the fund will return to a positive financial position.

Conclusion - Response accepted.

